Comment on "Integration of Trade and Finance in Africa," by William Lyakurwa

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There is always a problem when speaking last because most of the views have already been covered and for this particular topic a number of aspects related to it were extensively covered yesterday. In my comments, I want to focus on three issues which are also relevant to the earlier presentation by Ernest Aryeetey:

- One is that the regional groups were designed without regard to incentives to the contracting partners, and compensation mechanisms;
- Two is that adopting a framework of cooperation inappropriate to the current economic realities is a recipe for subsequent failure;
- And third is the lack of credible penalties for delay in implementation or non-implementation.

Trade Promotion

The gravity model Bill uses reaffirms an earlier view that there is a trade potential. The question Bill puts forward is, 'Why hasn't it been exploited?' Part of the answer concerns infrastructural links and trade promotion, but that is not all. There is one thing that we have to recognise and that is trade liberalisation. This has occurred in most of the countries since 1985, and more so in the 1990s. One has to link regional integration, the schemes that we have, the institutions that we have developed and the instruments, and see whether they are compatible and consistent with the current liberalised environment in the cooperating partner countries. One thing that I really welcome is the recognition of the critical role of the private sector. In a number of countries with more liberal trade and investment regimes, the private sector has actually been given a more active role, and we should take them into consideration if we want to promote trade.

Furthermore, under the liberal economic environment, countries have eliminated export licensing, allocation of foreign exchange and quantitative restrictions on trade. If the region has a system which is designed to exploit controls in promoting intra-regional trade, then liberalisation is likely to reduce trade flows. Related to this, the private sector currently makes

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business decisions relating to the financing of international trade without reference to central banks. The financing of imports is fully handled by commercial banks and there are no restrictions on the sourcing of imports. The producers within the region must be competitive if they are to be preferred to non-regional producers. The case of South Africa is illustrative. Between 1990 and today, South Africa has broken into a number of areas without trade preferences. They are not a member of COMESA and so a very important question is: How have they done it?

There is the other issue relating to institutions which are inconsistent with the current institutional arrangement for financing trade. Currently we have a PTA Clearing House that is linked to the central banks, but the central banks are no longer directly involved in financing trade; trade is financed at the level of commercial banks. So if we want the businessmen to take advantage of the credit arrangements offered by the clearing house, the commercial banks should become members of the clearing house. It no longer makes a lot of sense for the central banks to remain members of the clearing house (except at the level of providing credit guarantees). In Bill's paper, it is recognised that business conducted through the clearing house has declined significantly in the recent past.

The other instrument – this is in terms of promoting travel – that we have in the COMESA region (and I am using COMESA as an example) is the UAPTA travellers cheques. The PTA Bank continues to aggressively promote the UAPTA cheques in addition to prevailing over member states to do the same, but the travelling public does not want to use them. They prefer other fully convertible instruments. We have to re-examine the UAPTA travellers cheques with a view to redesigning them. One of the constraints is that it is only convertible into the regional currencies and circulation is limited to the COMESA region.

The other issue in terms of promoting trade in the region is the issue of non-tariff barriers. There are so many policy reversals in this area. Uganda, for example, has a ban on imports of beverages, for reasons relating to tax revenue. That is the same point Mohsin Khan has raised of assessing the impact of removing such bans on tax collections. Kenya, from time to time, has also imposed bans on importation of maize. We should look at all these non-tariff barriers. If we are going to promote trade on a sustainable basis, such measures have to be eliminated. There are also issues relating to transit requirements which vary from time to time, constraining free movement of goods. In fact, this point also relates to the issue of attracting foreign investors. If we have these policy reversals coupled with non-tariffs barriers and infrastructural constraints, it will be difficult for the region to attract foreign investors to take advantage of the large COMESA market.

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Foreign Investment

With regard to FDI and regional integration, I agree with quite a number of views expressed in the paper but I just want to add on a few issues. One is that the author has recognised that a number of countries within the region have eased conditions for FDI. A number of them now have revised investment codes, providing for repatriation of profits and dividends and have simplified the approval process. In Uganda, for example, we have a one-stop centre; it has taken a strong lead in publicising investment opportunities. The President has also played a supportive role by joining investors' search missions. Second, parastatal reform is another key factor in attracting foreign investors. In addition to this, one factor that we have to emphasise is a stable macroeconomic environment.

Still, having put all these in place, the flows remain small and we have to learn from the country experiences. In the case of the East African region, the flows that have responded to this environment were private transfers which increased substantially. Next in line are short-term trade flows. But beyond that, there has been very little. I think there is a timing issue. There must be confidence building and it will take some time, and that is at country level. A number of other issues come into play such as sustaining macroeconomic and political stability within the whole region.

How do we achieve policy sustainability? The regional bodies do not always have effective mechanisms for ensuring implementation of agreed policy decisions and guarding against policy reversals. There is need for weaknesses in regional groups to be addressed if investors are to take advantage of regional investment opportunities. For now, investors will move resources to exploit investment opportunities at a country level. Such investments may expand to take advantage of the regional markets.

Let me share with you some examples of where a policy change stimulates investor interests. First, when the currency convertibility within the East African region was announced, a number of investors came to my office inquiring what it meant for the East African region. I think there must be investors who want to take advantage of the East African market. The case that Bill has just mentioned of tourists is one of them; tourists are coming in, maybe in Kenya, and taking advantage of the other sites within the region.

Second, following liberalisation, we have seen cross-border investments, especially in the financial sector. Banks in Kenya have started moving into Tanzania and Uganda. We also have one bank from Uganda which has set up a branch in Tanzania. Third, when we liberalised coffee marketing in Uganda, a number of companies moved into coffee marketing and these are mainly European-based companies. Similarly, following the liberalisation of cotton growing and marketing, a number of companies, especially

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South African companies, have invested in the cotton industry in Uganda. Since the telecommunications area was liberalised, a number of South African companies have moved in. This was also observed in the Airline business where a joint Airline service between Uganda, Tanzania and South Africa has been set up with South Africa as a major shareholder.

So there is evidence of the "neighbourhood effect" and I think we should exploit it to the maximum. If the South African investments yield positive results, then we may see other investors from outside the region also coming to take advantage of the investment opportunities.

Government Policy

I want to end with some issues which need to be addressed. One is the issue of policy coordination. The countries in the region have been implementing structural adjustment policies, but the speed has varied and the sequencing has varied. It becomes extremely difficult to coordinate policy.

An attempt has been made by the Governors of the three central banks in the East African region to share experiences and also to identify areas of cooperation for the benefit of strengthening the reform process. Given the fact that policy emphasis in the three countries is different and that the autonomy of the central banks is limited, there have been problems in implementation of decisions. Currency convertibility announced by the Governors in September 1995 for implementation by end-November 1995 had not been fully implemented by Kenya by end-January 1996.

The other issue relates to COMESA. We previously believed that bigger was better, especially when referring to economies of scale. But in the case of COMESA, we have stretched it too far. Egypt has expressed interest to join the region and Zaire has joined. Even if we do not have an idea of the appropriate size, we need to rethink this particular regional group. The decision-making process becomes increasingly complicated as the number of member countries increases.

Last, I turn to the possible role of the private sector in regionalism. We have said that the private sector should be given a key role, but there are times when the private sector becomes an obstacle to regionalism. The manufacturers, for example, always agitate for protection and are, at times, a source of policy reversals on the issue of opening up the economy to competition. The private sector needs to fully appreciate government policy and regional policy if they are to be supportive.

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